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What is Capitalism in the Light of History?

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What is Capitalism in the Light of History?

Linguistic Booby Traps

Do we know what capitalism means? Are we annoyed by what seems a change in the use of the term? How about some other words of high import, such as democracy, labor, people, religion, communism, fascism? How can we be scholars, journalists, politicians, or even intelligent voters without having a clear concept of these terms? Or is it just a matter of pedantry that I am insisting on? Perhaps the extreme points of view are expressed by the words "scholarship" and "propaganda." The propagandist certainly wants no limitations put upon his strategic use of terms. He is a master in intellectual crookedness and is irked by any effort that cramps his style.

When a labor leader says that the "people" won't stand for this or that, he really means that trade-union leaders do not welcome some new plan. The extension of the term "labor" to include all who work, though found in honorable and sacred places, is absurd. In truth, the word "labor" is ambiguous. On the one hand, it means a group that uses its hands chiefly, in quite repetitive work, and receives a competitive wage. On the other hand, it is made also to cover all who exert themselves in the production of goods and the furnishing of services, including executives, foremen, professional people, and small business men. Into the contribution of these groups go many elements such as policy-formulation, management, control, and risk-taking, in which the laborer in the first sense has no part. When Adam Smith and others emphasize labor and land, they are either omitting contributions other than physical work or they are themselves thinking of the larger group. The irony of the situation today is that the executive works harder and longer than the so-called worker. But our point is that "labor" is a propaganda weapon of great subtlety.

Religion is a term that is similarly bandied about disastrously. For instance, it is said that communism is the new religion. At

once, this endears communism to some unthinking persons. In truth, communism has little in common with supernaturalism, and religion has been and must remain supernatural.

Communism itself is a term that is vaguely used by those who would help or injure the system. To a lecturer in an eastern city the word meant "a force destructive of established government." To old-time students it has long meant that form of social ownership and administration of business which divides income among persons according to their *need* rather than according to their *contribution.* More recently it has come to apply to autocratic socialism, such as prevails in Russia, in contradistinction to democratic socialism which up to the moment exists in Britain and Czechoslovakia. To many conservatives communism is a system which they do not like, whether it involves merely a small measure of socialization or a larger measure of control of business on behalf of what the majority thinks is the common good.

Fascism is to the communist and the radical an enemy of labor, of the people, or just of the persons using the term. In truth, as used in Italy and as used discriminatingly beyond Italy, it is a system for preserving private property from misuse or complete socialization, whether by trade unionists or socialists, so that efficiency may be preserved and part of the income used for further and future production and progress. That fascism was hostile to trade unionism reflects upon trade unionism. That it was hostile to the democratic rule by a majority reflects similarly upon that type of democracy. That it came to be hostile to the Jews reflects the influence of the fanatic Hitler.

And so we have fascism and communism, democracy and capitalism, all jumbled together in an emotional stew. We know that fascism and communism are sworn enemies and that one arises where the other shows its head. We know that each is a tyranny trained to preserve certain ideals held by influential minorities.

And, then, there are democracy and capitalism used in counterposition. Here is a poser—capitalism and democracy as hostile camps. Part and parcel of this opposition is the idea that capitalism is not democratic. In a sense this is true, in so far as under capitalism a man must work in order to get a living and many dislike the servitude. But historically it is the capitalistic system of the production of goods and services that broke down

the strangle hold of the Church and overthrew feudalism and established middle-class democracy in England about 1600–1832. Unless we wish to confuse government with business and becloud the issues, we had better not speak of the capitalistic *and* the democratic countries.

There is also the phrase "fellow traveler." At one time, it referred to liberals and New Dealers who in their social iconoclasm flirted with communists and socialists. Now it is used by conservatives and reactionaries as applying to communists and socialists who openly live and operate under other banners, perhaps as Democrats. In the current postwar housecleaning of the American government these fellow travelers are the special objects of investigation. Just how they would in the last analysis differ from old-time radicals is hard to see, that is, persons who tried to think fundamentally on social problems even though they were having a hard time in doing so.

One of the most insidious errors of judgment, enthroned in epigram, is that "all men are born equal." All history, all observation, indicates that no two men are born equal, even if brothers. The original application of this idea was that all men are equal in the eyes of God and then later in the eyes of jailer, judge, and jury. This legal equality has also never been quite realized, but at least it has been a practical aspiration. Our universities keep out the most unfit and graduate only the least unfit. We applaud performers as excellent, mediocre, or rotten. Perhaps the devotees of equality are really thinking of modern popular songs, bands, dances, and paintings. These are almost uniformly bad and they almost equally exemplify a decadent culture, a culture in which ability is shown in business, science, and engineering but not in the humanities. In the meantime, orators, pamphleteers, preachers, and some college professors have kept repeating the false allegation of equality. The idea thereby becomes a force in society. Its tendency is very definitely to level off the ranks of society. The least efficient man would under the dictum receive as much of the general income as the most efficient. This would discourage the most efficient without influencing the least efficient in any pronounced way. It is not a happy thought that some of the drives in a modern democracy are based on entirely false conclusions.

It does not help much to inquire into the practices of business

men. If we look into *Who's Who in America* we find that most business men put themselves down as banker, manufacturer, merchant, railroad official, shipowner, publisher, and the like. Very few have recorded themselves as "business men;" some have referred to themselves as "capitalists." Some of these have been rich and successful industrial capitalists, including bankers. Perhaps the term "capitalist" is regarded as too vague, possibly as too objectionable. In general, it has two common meanings today: (1) an industrial capitalist, one engaged in the administration of a business; and (2) an investing capitalist, one who has capital to put into the business of other people, either directly through partnership in the purchase of stocks and bonds or indirectly as the holders of insurance policies or bank accounts. In keeping with the latter meaning America is a land of capitalists, over half the adult male population belonging to this category. In truth, however, the group of capitalists is diverse and its interests often conflicting.

What Do We Mean by Capitalism?

When we come to capitalism, we find that intellectual fogginess surrounds the term and creates a familiar pattern of confusion. The common implications are big business, economic exploitation, and economic power. Farther back, more deeply buried in the situation is simple individualism. The long entrenched use of the phrase "capital and labor" or "capital *vs.* labor" pointed to the struggle that was inherent in the concept held by the average man. Just how the current threatening substitution of "management and labor" for "capital and labor" is going to influence popular usage is not clear.

Apart from a few textbook writers, little effort has been made to remove the term "capitalism" from the arena of confusion. We are left with two alternatives. We could coin a new word or a series of new terms. Or we could go back to the historical application of the root ideas involved in capitalism and stick to the kernel of meaning, allowing always for the shifting circumstances surrounding the system and inherent in the system itself. This latter course we shall follow.

But why bother about the matter? Why take the subject so seriously? Why not let the slander or propaganda run its course? Why not rely upon the theological dictum that in the long run

truth will prevail? The answer is that the world seems about to divide in order to fight for a fiction — to destroy the thing called "capitalism" which, as commonly defined, does not exist. A general witchhunt may be in the process of beginning, a struggle in which many millions of persons think they will have nothing to lose and may pick up a little loot.

More specifically, what men would intend to fight against would be capitalism as exploitation; what they would actually be destroying is capitalism as freedom to use goods in a private way. Capitalism would still remain after the fight; but, if the communists won, the capitalism would be public business capitalism. There would be no reversion to a pre-capitalistic system of cave-man days. Along with freedom to use capital in a private way there would be lost to all men freedom of many kinds. Aiming to destroy an economic system, the communists would just change its nature; but in the process they would have destroyed freedom in all its higher reaches.

Many times I have been asked to define capitalism. In writings and in lectures I have preferred to describe it at various stages. But, if I should give a definition, it would be as follows: capitalism is a system of getting a living directly through the use of capital goods or intermediately through capital funds. Only such a simple concept is adequate to cover essentials and to allow for historic changes.

Capitalism is that economic system which, like fire and humor, has raised man above the level of his fellow animals. Instead of just appropriating nature's products (berries, nuts, timber, animals) and devouring or otherwise using them, progressive man has saved, planned, and cultivated for future use. Capitalism and civilization have ridden along the course of life together. Capitalism has been in the driver's seat, civilization inside the carriage.

Getting away from the metaphor, we may say that capitalism is a system of getting a living which has changed in form from time to time but which has always presented to men a primary challenge, in which they have sharpened their wits and strengthened their bodies, in which they have increased their vocabulary and built up ethical concepts, in which they have learned to adapt themselves to climatic conditions of great

variety and still remained able to wring a living from the soil or the sea.

Construed in this way, capitalism is not and cannot be made to be the object of an individual's animosity or a party's attack. True, some types of capitalism could be objected to as unfitted to existing conditions. Of course, propagandists don't want this distinction made: they want to take advantage of the subtle linguistic subterfuge which is their stock in trade.

If we think of capitalism as a system of wringing a living from the soil or the sea by means of bows, arrows, spears, traps, flocks and herds, corrals, horses, dogs, chickens, boats, carts, shops, trains, factories, and airplanes we put it into its true historic position—no one wants to get rid of it. The system begins early and will linger to the end of man. It is not an historical category which has come late (fifteenth-century Renaissance) and will go soon (twentieth-century Marxism). It started with nomadic economy, or indeed the developed part of collectional economy, and lives on into town and metropolitan economy; it played its part in a tribal political organization, a provincial state, a national state, and now is alive in an imperial nation.

Let us root this propagandistic framework of Karl Marx and others out of the concept of capitalism. Capitalism's enemies have framed it as a late and base outgrowth, which modern man should smite. This is pure perversion. Capitalism is in its essential form the way of getting a living on the part of all but most primitive man. Many a person has felt something like this but has not analyzed his thoughts or dug through the pages of history with a mind freed from dogmatic definitions. Words and concepts should be our tools and slaves; at times they become our bonds and fetters, the very masters of our intellect.

I have no thought at all that necessarily looks to the destruction of agitation, turmoil, or social war. These lie too deep for mere words: they are rooted in materialism and emotion. What I should like to see accomplished is the analysis of the thing we want to destroy and the thing we would put into its place. More particularly, we should examine the successsive types of capitalism to see what we think of each. I have no doubt that many individuals would take exception to each type, one after another, and particularly to the one that prevails at the present time, but that is another matter.

The Earliest Stages of Pre-Business Capitalism

It is to this historical exercise that I bid the reader bend his energies. Best of all, let him do this for himself in a period of years of study. But, in lieu of that effort, perhaps he will go along with me, or at any rate start out on the journey of inquiry into the great changes in the history of capitalism.

The earliest stage in the history of capitalism was nomadic, especially pastoral nomadic, economy. In this phase of man's social growth the task of getting a living has centered in caring for animals which provide food, transportation, weapons, and raiment. For countless ages man has pastured cattle, sheep, goats, and horses. At the same time he has kept dogs, chickens, ducks, and geese, which, when the pastures dried up, put off with the human beings to fairer feeding grounds. This sort of life is still found in many parts of the world; the Tagus Mountains, for example, are annually crossed by certain tribes who have practised the art of seasonal migration for perhaps ten thousand years or more. In such a capitalistic society there must be warriors to protect the source of livelihood. Accordingly, the men are practised in the art of defense and at times seem to engage in forays which we may call offensive warfare. Such nomadic peoples typically have no money, no banks, and not even towns. They have plans, discipline, and coöperation. They own personal property as individuals, other equipment as family groups; but the flocks and herds are jointly owned and jointly used. There is enough for all on a low level—so long as the pastures are green. Though there is plenty of individualism in the pastoral nomadic state, there is no such development of it as we find at a later date. A man must fall in with the habits of his fellows, his family, his tribe, his group of tribes, who migrate together and carry on mutual defense. Probably few ever feel cramped from having their opportunity for initiative curbed—at least no more than in any organized community which must live and fight according to the rules which are created by environment.

Here, in pastoral nomadic economy, was an early form, perhaps the earliest well-developed form, of capitalism. If this point is not grasped and accepted, there is no need for the reader to proceed further. It is necessary that capitalism in all its essentials should be clearly seen as the old, slow-moving wagon on which civilization goes forward.

When peoples in Asia, Europe, and Africa took the next step, they moved from pastoral pursuits to settled agriculture, to the cultivation of the soil in villages. Their village life was at first free and later servile. Typically the free village became a manor, though manors with lords and close social organization might be created where no settlement had been at all. But this is the important consideration: the new settled existence was also capitalistic, though not the counterpart of what we today are accustomed to. More reliance was placed on a cultivation of the soil and less on the cultivation of animals. Now there were plows and harrows and more carts than ever. There were houses, barns, stables, and sheds. There were stored crops and carefully husbanded seeds. The village peasant was a speculator in crops, as his ancestors had been in animals. Planning and anxious care were daily requirements.

When and where villages became manors and therefore subjected to a lord, lay or ecclesiastical, there arose a high degree of organization with its gradation of officials, its elaborate accounts, and its regular provision of dividends in the form of surplus sent to the lay lord, the pagan temple, or the Christian bishop. Capital goods used in an orderly way became the basis for a highly developed manorial economy. There was, of course, no capital *fund* for investment, but there were capital goods for further production, usually the maintenance of existing types of production. Europe, Asia, and Africa have experienced comparable but not exactly parallel developments.

Private Business Capitalism

The big development in the early system of capitalism came when *business* capitalism was born—as the town rose on the framework of a favorably located village. One of the great achievements of the human race has been to create a system of business. This is not just the exchange of a surplus of nuts for berries or of fish for tubers, which has taken place from earliest times. It is the specialization of men in one kind of production with the idea of selling the products to other specialists from whom other needs may be satisfied. It is not selling the casual surplus for someone else's chance surplus but producing for sale and depending on others for a variety of commodities. Man discovered how to use fire, but he actually *created* a system

of pastoral nomadism, settled village agriculture, and finally urban business.

Following a linguistic inheritance, we often speak of the life of the citizen *(civis)* as "civilization." In a very special sense it was civilization—with greater potentialities than any other system. At the hearthstone of business were nurtured our art and letters, philosophy and science, printing and engineering. Only in great commercial towns was there a great culture. Business was the cradle of higher living. True, a village might be made into a political town with administrators and priests, but without a basis of business its influence was limited and its life precarious and short.

Historians are inclined to emphasize the invention of the alphabet in the ancient period and of the printing press in the late medieval. They are quite justified. But in passing over the system that made these effective and influential, they are showing an unpardonable shortcoming. We must remember that historians are scholars and scholars have inherited a set of traditions, some of which are good, others bad. One of their strong inheritances is a predisposition to emphasize scholarly matters and theology. In themselves these are high attainments, but they cannot exist in a vacuum. Before business arose in towns, that is before there was any business capitalism, there was but little surplus of goods to support scholarly or priestly efforts and there was slight specialization in any kinds of pursuits that permitted high attainment.

The town, with its walls and citadel, its courts and local law, its police force and military array, provided protection for the accumulation of goods. At last, it was worth while to gain a large surplus because at some time it would profit the owner. The storage of goods beyond a single season or crop year was now the normal procedure. Luxury articles were now manufactured not only for immediate use but for future sale. In the Orient the silk industry flourished, and in the Occident the woolen industry. In the Orient the spice and tea trade blossomed forth, and in the Occident trade in pewter and wine, slaves and gold. Some scholars have been inclined to emphasize the luxury trades as fertile fields for the nourishment of capitalism. They are right, but these trades were more supplemental than fundamental.

In the matter of the amount of capital accumulation, these

luxury trades were very significant. Considerable fortunes were amassed in these trades—silks, woolens, spices, jewels, and the like. These fortunes were, in turn, used to develop new business activities, ultimately the exploration and commerce of the New World; and they were used to build palaces of art into which went the high skills of artisans and artists, far and near. At last, there were rich secular patrons for the work of skilled hands. And these patrons purchased the richly illuminated manuscripts and the beautiful white-paper books of early days. Here, centering in the accumulation of wealth used for both production and consumption, there were established markets for wares of high taste and high scholarship. We need mention only the Frescobaldi, Bardi, Peruzzi, and Medici of Italy and the Fuggers of Germany. The artists will say, "But it was the Church that nourished the early arts, and religion inspired their creations." Yes, the Church provided the themes but, directly or indirectly, it was business that fed the artists and provided them with enough substance to buy their paints and brushes and support the feminine influences which produced a lifelike Virgin Mary, in fact some so lifelike that soon it was impossible to tell which the artist was painting, Mary or Venus. And, in general, it was the rich merchant class that demanded more of the worldly point of view and less of the ecclesiastical, indeed that led the way to the Renaissance of classical art, letters, and learning. Of course, in following this theme of luxury, we have gone ahead of the main story and passed on to the second type of private business capitalism.

As commercial centers developed in Italy, France, Germany, the Low Countries, and England, art and letters, philosophy and science were studied and used to produce a leaven that created the modern world. Private business capitalism, luxury, worldliness, and science have a close relationship. They have run counter to pre-business capitalism, asceticism, supernaturalism, and theology. Men have long been struggling between these two sets of influences. In the fifteenth century they chose private business capitalism and the concomitants mentioned. All the rest has flowed along from that point—Reformation, discovery and colonization, and industrial and transportation revolutions. One wonders whether the present social revolution, in the midst of which we struggle to find our way, is going to reverse the process.

The history of business, to which the Business Historical So-

ciety and the Business History Foundation are devoted, is the history of private business capitalism. Indeed, that is all there is on the record. Pre-urban history would include the study of capitalism but it would be an undeveloped part—without any business. Thus we see that business history, like general history, actually begins with the town—with town civilization.

I would not rule outside the pale of "civilization" such peoples as Berbers, Arabs, and Iranians, but their civilization is a pre-urban civilization with little or no private business capitalism. True, conditions may change in those and similarly situated lands, particularly under the influence of a developing petroleum industry; but, in general, they have a long way to go. One wonders in this world of conflict of the 1940's, when private business capitalism is struggling to hold its own against the public business capitalism of the Russians, whether the influence of those peoples who are pre-capitalistic (that is, of pre-private business capitalism) will not ultimately swing over to the side of the Russians. That is a current world issue.

What we have done in this section is essentially to differentiate between a capitalist and a business man. We find a few industrial capitalists regarding themselves as "capitalists" and a few as "business men." Genetically, capitalists should be considered as older than business men. In other words, according to historical growth, a business man is a capitalist who specializes in production and gets his living by exchanging his goods or services for someone else's goods and services. A capitalist arises in the dim transition from collectional to nomadic economy, while a business man takes his beginning in the relatively late stage of town economy when he begins to lay the foundation for our urban culture.

If anyone is interested in a confusion of terms parallel to that of capitalist and business man, let him consider usury and interest. Since the sixteenth and seventeenth centuries, and currently, usury has meant a high rate of interest. Earlier usage was more discriminating. Usury was a payment for the use of money loaned, whether the rate was high or low. Interest was a payment for a loan of money that had not been paid back at a fictitiously arranged time. In other words, a loan was given free for a week or a month; and then, when not repaid, a penalty was imposed, for instance, 2d. per week per pound or 43 1/3 per cent. Thus, we see that usury is the more inclusive term, when considered geneti-

cally, and interest is the more specific. And so with capitalism and business man. But today usage has reversed the situations in both cases. The philosopher recalls how nominalism and realism have reversed themselves, as indeed have beer and ale, though the philosopher might not know about this latter subtle substitution.

Individualism in Private Business Capitalism

A man, in whatever stage, has attributes of an individual. He will fight to survive. He will struggle for food. He will search out a woman. He will die defending his family. But all of these, though vitally important, are crude and unrefined. They are biological, not social. Once Lujo Brentano said, "Capitalism is born in the heart of man." He meant that individualism is born an essential part of the animal. What we are interested in here are the refinements of individualism which mean so much today and which we regard as essential in a free society. What we are getting at is that *individualism in its higher reaches* began in business; that business laid the foundations for the initiating and the creative power of man and the flowering of the human genius; and that our best art, philosophy, science, and engineering are both direct and indirect outgrowths of business or, more discriminatingly, of private business capitalism.

When one man specialized in producing a commodity or providing a service, he became dependent upon somebody else who was like-minded. But as this mutual dependence developed, so did individualism grow. Up to the point that the weaver had to sell his cloth, he was pretty independent. While making a saddle to the order of a customer or, even more, for chance sale, the artisan was free to follow his own methods of work.

What the shopkeeper and storekeeper, huckster and traveling merchant in the incipient towns were doing was substituting the contractual life of a burgher for the servile status of a peasant on the manor. In the new life of the towns there were free contract, continuous bargaining, risk-taking, and failure or success. There were policy-formulation, management, control, and work by hand and brain, all wrapped up in one. All the business specialties of a later period lay enfolded in the foetus of petty capitalism, which was slowly developing in medieval towns, as it doubtless had also developed in the Roman, Greek, Egyptian, Babylonian, Cretan, and Anatolian towns of ancient and pre-historic days.

I do not know what it is necessary to do or say in order to induce the reader to appreciate fully this rise of free contract. Perhaps we shall really know freedom only after it has been lost to us, as we are being wrapped up in the enshrouding bands of a twentieth-century mummy. "Town air makes free," was the old concept of the rise of the business communities called towns. This freedom meant an almost unrestricted opportunity to buy and sell, to hire and fire, and to engage in a whole series of activities, such as to cart wine to a seaport, charter a ship for service, or provide food for an army. The freeman, the contractor, the little business man, or the petty capitalist surveyed the costs, reckoned the chances for gain, and fixed the price. His customer was as free as he was and snapped up the bargain or beat down the price. Two free men higgled and haggled: it was the sign of their contractual freedom. Their descendants would be free and able to debate the merits of realism and nominalism, national sovereignty or papal supremacy.

Along with this free contractual situation there was developed an economic rationalism that the world had never known before. To become rational is man's most difficult challenge. Only a small percentage of men can be rational for even a few hours a day—probably centuries of evolution will be necessary for marked progress—but private business capitalism has been playing its part in taking men away from personal and emotional considerations. The little business men of the towns were beginning the process of buying and selling to "customers"—not to friends or relatives. Goods were made for or sold to people, including strangers, who answered one primary requirement—they had the money to pay. Of course this was the thin edge of the wedge of policy-formulation, that is, the highest part of modern business. The spirit of private business capitalism was keyed to a profit which was the meeting of costs and earning a surplus as a reward for risk and capacity for management. Those early capitalists—the little business men of the ancient and medieval periods—sought an over-all net profit; they were willing to lose on one article if they could only gain on others and secure a general gain. The Church's position in the Middle Ages was to attach profit to a single commodity, not allowing for the recouping of losses through other transactions. Thus we see that the petty capitalists of the time were more logical, more rational, than the great Church leaders.

By this time the reader may ask, "Well, what were these petty capitalists called?" Surely, capital and capitalism are modern terms—seventeenth- and eighteenth-century words—and are not found away back in early town life. All this is true. Such a situation always occurs: the specific word comes first. We have "cart" and "wagon" before "machinery," and "man" before "mankind." The early capitalists, petty capitalists, as we have called them, were called shoemakers, weavers, saddlers, bowyers, hucksters, regraters, and waggoners; the more successful were drapers, mercers, clothiers, salters, and grocers. The earliest general terms were probably "tradesmen" and "handicraftsmen." The *idea* of emphasizing specialization in the use of accumulated wealth in production, that is, capital, had not been born, even though the *thing* was there. (It has probably always been thus—the thing comes first and then the idea.) And the idea, when it did come, was confused by propagandists and made to becloud the mind rather than aid it in its orderly processes. Yes, those little fellows of ancient and medieval towns were as much capitalists as the big fellows of metropolitan London and New York, but, of course, they were *petty* capitalists. It is not quantity but quality, or nature, that counts. The petty capitalist was specializing in using capital: he made one article and exchanged it for another. He was not only a capitalist but a private business capitalist.

It is sometimes said that there is a psychology of the business man. If so, it began to develop in the petty capitalist at the dawn of private business capitalism. Perhaps the first extended treatise devoted to the historical aspects of this subject is *Der Bourgeois* (1911), written by Werner Sombart and translated as the *Quintessence of Capitalism* (1915). This work is decidedly worth reading, though it is somewhat journalistic and reflects Marxian influence. It is catastrophic rather than evolutionary in point of view.

The spirit of enterprise was found in pirates and vikings. It was the contribution of the petty capitalist, however, to have developed a system for the exchange of goods and services in which both buyer and seller gained, for each got what he wanted. Each respected the rights and position of the other. To be sure, there was no perfect exchange of values. The seller was generally in a better position to know the value of a commodity which he either made or handled in trade than the buyer who saw it for the first

time. Unscrupulous business men sold false wares, and petty capitalists have always had many such offenders in their midst. Accordingly, there arose the dictum: *Caveat emptor,* or let the buyer beware. This impaired but did not invalidate the spirit of business—a fair exchange.

Along with the spirit of fair exchange went the acceptance of loss as part of the game of business. The loser would not go out and smite his neighbor, for he was no brigand. He accepted his loss with the expectation of making it up in a series of future transactions. Other aspects of business psychology are courtesy, coöperation, and improvement.

The peasant and his lord were imbued with the idea of getting this year what they had got last year—the peasant what he got from the soil, and the lord what he got from the peasant. There was little concept of change or improvement. Changes to them were confined to the improvements or benefits found in the world to come. The *petty capitalist,* however, had a concept of change. He had been born in the change from agricultural village or manorial life to the commercial and industrial life of the town. He saw the possibilities of catering to his own town market and to the villagers round about. Beyond these lay other towns near and far. Beginning small, he could increase his activities by buying more raw material, working harder, employing more apprentices and journeymen, and catering to a wider, even a foreign, market. And, so, these base things, materialism and size, began to grow until small market towns became industrial and commercial cities, and some of these in turn became metropolitan centers. A worldly point of view arose with its emphasis on luxury, a real knowledge of the universe, science, and engineering. Even enlightenment, or the acceptance of light from whatever source, was finally to arise in certain quarters during the eighteenth century. Little could the petty capitalist know how far the ripples of his effort would circle out in the sea of men's endeavor.

Apparently it is not given to any group of men to do anything particularly new without making mistakes or going to extremes and, we may add, without provoking opposition and criticism. There were various groups outside the field of private business capitalism—churchmen, nobles, peasants and squatters, beggars, soldiers, and robbers. All these had an envious and a critical eye upon the petty capitalists. The Church arose as critic—the

prophets in biblical days and the Fathers, Schoolmen, and Canonists in the Middle Ages. The petty capitalists were accused of charging too high prices and of lending money to needy men for a profit to themselves. Great was the sophistry used in the denunciation of the petty capitalists. How wrong-headed and unreasonable the churchmen were, is now readily enough discerned. How petty and mean the private business capitalists—the Shylocks of the market place—could be is also clear. It was the excesses and not the system, however, that were really open to objection. A sober judgment of the present would award to private business capitalism a medal for service to the public—goods, towns, arts and crafts, secular schools, progressivism, and ultimately liberalism.

And then there is money, the love of which is "the root of all evil." Money has provided for three systems of exchange: (1) a money barter in which goods are exchanged for goods in terms of money, (2) a money economy in which goods are sold for money, and (3) a money-credit economy in which goods are sold on credit which is reckoned in terms of money. The second and third are contributions of the petty capitalists in the era of private business capitalism.

Only in outline have we dwelt upon these early forms of capitalism. And yet we have not begun to scratch the surface of the story that lies buried in those early years. The story has to do with capital itself, its use, its accumulation, the spirit behind the system, and the Church's reaction to the phase called private business capitalism.

Just as men react against new forms of capitalism today, so did the Church find difficulty in a period of a thousand years in adapting itself to something new and vital; it succeeded in doing so only when loans were no longer consumptive but productive and when society refusing to follow its leadership, set up Protestantism in competition. The Church had developed its opposition to "interest" and market price in an era of pre-business capitalism and it made the great mistake of holding to its early position when private business capitalism developed. The "enlightened" public of that day failed to understand capitalism just as a similar public fails today.

Sedentary Merchants as Model Business Men in a Régime of Mercantile Capitalism

The orderly individualism considered in the preceding section was a contribution of the petty capitalist. But it was carried on and broadened by a new class of business men—the sedentary merchants operating under a system of mercantile capitalism which took the place of petty capitalism as a dominant system of business. Indeed, mercantile capitalism was just the second phase of private business capitalism. It lasted about seven hundred years and was a masterful system. Literature often touches the high point of the system when describing the so-called merchant princes of the late Middle Ages and early modern period. This is what so often happens in literature—just the tinsel is presented, the essence being overlooked. Literature, general history, and theology are like that: the blind lead the blind. Only through specialization can we peek beneath the surface of the superficial.

Sombart found the spirit of capitalism in the Italian Renaissance. He even went so far as to conclude that "illegitimate love begat capitalism." He was thinking of the growth of the luxury trades in Italian cities. Italian merchants and princes bought jewels and fine clothes for their mistresses. (This is a typical example of the journalism of Sombart.) It is true that the individualism of the business man, first the petty capitalist and then the mercantile capitalist, went over into the artist of the Renaissance, who came to insist on depicting what he saw—gods and men, particularly women—rather than what he was supposed by a domineering Church to see.

To us the chief fact about the new system of capitalism is not what people thought of it but what it really was. The great new fact was that, instead of a petty capitalist characterizing the business of the day, there was a sedentary merchant who embodied in himself the new capitalism. One of the petty capitalists of the towns was the traveling merchant—a kind of glorified pedlar—who never got far because too much adventure was mixed with business. The big shot of the new régime was the sedentary merchant—the one who stayed at home, operating solely in his countinghouse. He left to others the various jobs of business operation, while he himself kept control of all his agents and partners, strung the keys of his strong boxes to his belt, and saw

that his clerks made the proper entries in his account books. Such a sedentary merchant had in mind costs, prices, the best seasons for this and that trade, the probabilities of war and peace, the burden of customs duties in various nations and seaports, the possible glut of the market (spices in early days, tobacco later), and the question whether, if his ships brought home goods instead of gold or silver, his government would be pleased. Concentrating on policy-formulation, he left operations to others. Control of operations, far and near, came through knowledge of the men whom he chose as agents or accepted as partners, together with the detailed accounts he kept and required others to keep.

This sedentary merchant was the master spider of his race. Only, instead of consuming his customers, he took their gold and silver and gave them the goods and services which they could really use. Never a more rational exchange.

The ordinary sedentary merchant lived over his warehouse or over a retail store he may have operated in addition to his wholesale business. His ideal was to be economical and display no wealth. Only the very successful, often of the second generation, became ambitious socially. In medieval Italian towns they erected palaces which today are the admiration of the student of art.

In the warehouse there was a clerk or two. If the town was a seaport, the warehouse might be next to a wharf. And there, tied up to the dock or riding close by, was a ship ready to sail, hurried off by the merchant so as to make room for a returning one expected any day.

Nowhere else have we seen so clearly illustrated, at least on a large scale, the work of venture capital. The accumulations of the merchant were put into voyages far and near. Never a storm blew but rocked his ships and threatened his hopes. He had one primary chance for salvation, namely, that, with a ship on every sea, enough would return with rich cargoes to make up the losses of those claimed by Neptune or seized by pirates. But he had other devices for meeting the hazards of mountainous seas and hungry enemies: he would take other merchants in as partners in a voyage. He himself might load the ship, order it to a promising port, specify the goods to be purchased on the return voyage, and then turn to his neighbors and sell shares in the voyage. Three others or perhaps a dozen would participate. The other shareholders in the single voyage were very accommodating, for they

expected him to share in their ventures. I suppose this was a forerunner of the coöperative competition which the business man of the 1920's considered his own invention. Certainly when the return cargo was divided, the goods would be sold in competition —one shareholder with another.

These temporary partnerships or one-voyage ventures were the order of the day. How far they were designed to spread risk and how far to enlist the capital of others can never be told. We do not have the system today, but we do have the equivalent in our system of making commercial loans and insuring our ventures.

In well-developed commercial towns, like Florence and Venice, there was a common form of partnership which has great interest for the student of modern business administration. An older business man, about to retire, would provide a good deal of the capital required for a partnership to last three or five years. A second man, perhaps a cousin, would put in more capital and undertake to formulate the policy for the partnership. A third, a younger man, would put in no capital but would manage the affairs of the firm. Each would receive a predetermined part of the net profits. This system, well documented in fourteenth- and fifteenth-century business records, has of course come down to us to the present day, though the tendency now is to form a corporation instead of a partnership.

Often there were men who possessed capital but had no means of using it. They would entrust it to a sedentary merchant to buy, say, government stock (bonds) or to put into the merchant's own ventures to share his loss or gain. At times this receipt of money looks like a deposit banking business, at times like taking a share in a venture.

It must always remain somewhat of a puzzle for us moderns to grasp the whole process of a sedentary merchant's business. We can understand the spirit of enterprise, the love of gain, and the many-sided administrative activity that engulfed the sedentary merchant. But how did any individual, sitting in an office, administer so many operations? Two devices constitute a large part of the answer. One is partnership whereby junior partners carried on part of the operation, for instance, in the management of a retail store. The other is agency.

The sedentary merchant bought his goods through agents. For instance, industrial factors arranged to have goods made to order

and collected in time to meet the season's demand. An agent, sometimes the supercargo, took the cargo to sell in another port. Sometimes a resident agent abroad bought and sold as directed. And then other sedentary merchants at home or abroad would themselves act as agents for fellow merchants for a commission of 5 per cent or more.

The system resulting from these activities was one of the most flexible known to business history. The position of the petty capitalist had been and remained more or less rigid; but the sedentary merchant could adjust his affairs quickly either to war or peace, storm or calm, prosperity or depression. In a depression no more goods would be purchased from artisans working in their shops in town or country. Ships would be tied up and crews dismissed. Captains would go home to wait out the period of difficulty. And, then, when the prospects were again favorable, sails would be repaired, goods replenished, and connections built up again.

It is customary to identify with capitalism the ups and downs of economic fortune. Certainly in the stage of mercantile capitalism there were commercial crises in great numbers. No adequate study of these has been made but the recurrence from 1345 onward is on record. How far these crises were due to generating or crop cycles, how far to wars, and how far to the mere dislocation of demand and supply is unknown. But how anyone could deny to the fourteenth and fifteenth centuries the honor of being capitalistic is hard to see. Capitalism was already old and private business capitalism was in the second stage—mercantile capitalism. And men were learning that some could do well by themselves in a competitive system, while others could not. And there was the usual result. Some of those who were suffering from the competition with others arose to smite the successful ones. On the streets of many towns blood was spilled, particularly when the submerged petty capitalists fancied themselves oppressed by the rising mercantile capitalists, particularly in the matter of the beating down of the prices of industrial products at the hands of the new masters of commerce. An article that cost two shillings of labor might in a depression have to be sold for one shilling because of the bad market. Such is the penalty that we have long had to pay for an unregulated market, a free

economy; and many individuals cannot thrive under such a free system. In truth, only a certain percentage of men are born to be free men in any competitive economic sense. This is the greatest danger the different forms of capitalism have to face.

As mercantile capitalism progressed, capital funds became of increasing importance. The loaning of money and the investment of money began under petty capitalism, but under mercantile capitalism money became the basis of specialized endeavor. In other words, some sedentary merchants turned, particularly in old age, to specialization in the banking business. Indeed, private banking arose in this fashion. And, although public banks, such as the Bank of Genoa and the Bank of Barcelona, have received the preponderance of attention from historians, it was these private banks that did the large proportion of the banking business. This discrepancy results from the survival of records of public institutions, while the records of private firms have a habit of disappearing.

At this point we have touched upon one reason for the historian's failure to note and emphasize early capitalism. The records have almost wholly disappeared, while any transactions that have been recorded in government records are open to study. History cannot transcend the existence and nature of historical records. It is the good fortune of current historians to have plenty of such records and to have a Business Historical Society (formed in 1925) and a Business History Foundation (formed in 1947) devoted to their use. It is not a very happy thought, however, that historians have denied the early existence of capitalism because they did not find the evidence. This positive conclusion from a lack of evidence would be like concluding that there is no deity because we do not see Him or clearly find the work of His hands in nature.

Let him who will, record the cultural activities of sedentary merchants. In doing this it would be necessary to study medieval and early modern art, particularly painting and architecture. It would be necessary to study the patronage of men of letters and explorers. There is indeed a whole chapter of discovery and exploration, beginning before the time of Columbus, which centers in the sedentary merchant, but much of it remains to be written.

The debt that society owes to the sedentary merchant is seen in the development of metropolitan economy and the city state. The national state was facilitated by his wealth and by his leader-

ship. Imperialism was nearer to his trade. Economic reasoning in seventeenth- and eighteenth-century England and France was largely in the hands of merchants.

Industrial Capitalists
Good Engineers but Poor Administrators

When we enter the régime of industrial capitalism we come close to the modern acceptance of capitalism. It is common for sociologists, social economists, and socialists to emphasize the capital accumulation found in factory machinery, steamships, and railroads. The new development found in the Industrial Revolution of the eighteenth century seemed to embody "capitalism" par excellence. More readers will follow with sympathetic agreement from this point onward.

Industrial capitalism is not to be identified exclusively with manufacturing, though manufacturing has constituted a distinctive part. In truth, industrial capitalism is that system of using capital *on a large scale in one industry* (or in a closely knit group of functions). It refers to large *specialized* wholesale concerns, retail stores, chains of hotels, commercial banks, and commission agencies as well as factories, steamship lines, and railroads. It is the medium-sized and big business so freely dealt with in economic and social literature.

A little reflection shows what a change in private business capitalism was involved in this specialization. What the sedentary merchant in the preceding stage had done, or got others to do for him, was now being done by many different specialized or industrial capitalists.

A study of the sixteenth and seventeenth centuries shows tendencies toward the breakdown of the sedentary merchant's business. It was common for old and well-established families to give up importing, exporting, retailing, wholesaling, commission agency, and so on, in favor of commercial banking. Very early the Medici and Fuggers had turned to this specialization though the process was not complete. The commercial goldsmiths of London became private bankers, providing other merchants, and sometimes the government, with working capital.

Other sedentary merchants tended to specialize in transportation by sea, carrying freight and passengers on traditional, if not regular, routes. Others abandoned risk-taking commerce in

favor of commission agency. Turning to this type of specialization in a depression was as urgent as remaining in it after the depression was over was precautionary.

The shift of the sedentary merchant from employing others to manufacture for him by hand tools or by hand-power machinery to employing them to work in factories was the big significant move. Here and there in the woolen industry of the Middle Ages, it is true, the merchants had induced the hand workers to come into their newly established central workshops to work under discipline and the division of labor. But now, to the system of discipline and division of labor was added power machinery, driven either by water power or steam power. This was the factory, which we find developing in the cotton, iron and steel, and woolen industries.

Although this was the evolutionary flow of capitalism, there was a revolutionary social change of far-reaching significance. This revolutionary change lay in the rise of the hand workers who had long been economically dependent upon the sedentary merchants for the sale of their wares. The rise of these small dependent masters constituted a revolution; indeed they became the backbone of the Industrial Revolution and their rise constituted the central social development of the time. The old-time sedentary merchants thought they could maintain their mastery of business by transferring to the new industrial capitalism: certainly they had capital and trained executive capacity. But they did not have the feel of manufacture: their ability lay in business techniques and not in mechanical techniques. It was the small masters or petty capitalists, long submerged, who saw in the new factory system the opportunity of a millennium. True, they were not engineers, trained in schools or learned in book lore, but they were used to tools, wheels, and simple machinery, such as the hand loom, water wheel, and blacksmith's bellows. In other words, they were practical engineers or capable of becoming such.

The contest was on. Could the old-time sedentary merchants become industrial capitalists and maintain their dominance over all other classes? The wheel of chance gave the opportunity to the little fellows and they grasped the opportunity. It was this new leadership from below which was at once the strength and the weakness of the new system of industrial capitalism. The

system was to profit from the mechanical ability of the little fellows and to suffer from the loss of the business ability of the merchants. It is only fair to note, however, that the merchants shifted to various undertakings within industrial capitalism, but they pretty generally failed to transfer to the most profitable parts — manufacturing and transportation. The merchants became bankers, commission agents, insurance brokers, importers, exporters, and large-scale retailers. These specializations were an integral part of industrial capitalism but as has been said, not the key parts—manufacturing and transportation.

The swing in the pendulum brought a measure of social justice to the little fellow which he readily grasped, though his success was not generally unclouded or unlimited. He went ahead in the textile industry, the iron and steel industry, and in railroading, inventing, improving devices, and learning how to sell the new products and services. In the process some of the little fellows became well-to-do, partners in firms, officers in companies, and stockholders in several concerns. Of course, only a relatively small number of the little fellows could rise to the top.

Here was the second great tragedy for Mr. Everyman, the first having been the rise and controlling dominance of the sedentary merchant in the system of mercantile capitalism. Must the little fellow, the average man, always fail? Does capitalism always cheat him in the end? The answer is yes. Only petty capitalism gave full mastery to many men. And even in that system of little masters there were permanent journeymen who could never rise. No wonder capitalism is not popular with the masses, when it never has offered and never can offer to them full-fledged economic citizenship. No wonder the man on the street grasps at socialism or communism as a means of emancipation. The different types of capitalism are selective: they allow some to rise and some to fall. This includes public business capitalism called socialism.

The explanation of the failure of the little fellow lies partly in his numbers but also in his limitations. He cannot compete in a system that involves continuous effort, for he must attend a ball game; cannot save for the future, for he must buy a car; and cannot plan for a career, for he must get the biggest possible income now. Emotion, lack of ambition, inability to take a technical training, and unwillingness to sacrifice for things to be

enjoyed later, these things keep some men down and provide an array of enemies of capitalism of whatever type. Too many people cannot play the game successfully. So they blame the game and not themselves. This is a normal formula for both failure and revolution.

But some of the little fellows rose to become successful industrial capitalists. There were Arkwright, Boulton, Cunard, Slater, Astor, Baldwin, Vanderbilt, Armour, and Carnegie. To them challenge meant a sharpening of strength, and difficulties led to triumph. The tragedy of much of the success such men attained was that, in gaining wealth through serving themselves, they so often failed to grow culturally and failed to give sufficient attention to family life and family education. They sacrificed themselves that the rest of us might profit from the work of their hands and then laugh at them for their one-sidedness. They became the *nouveaux riches,* whom lesser men in their vanity scorned to honor.

Part of the success of the new capitalists centered in the growing mechanism for getting capital. As man improves his organization for living and working, he is found to be using more pipe lines — means of getting goods, ideas, knowledge, and services through to other people. When money economy was born, that is, a mechanism of using small convenient articles (money) to represent values, then the way was paved for a better flow of the capital goods themselves, because it had been found difficult to discover some other person who had goods to exchange and who actually wanted what his neighbor had to give him. Now there was to be an intermediate step. Men with goods to sell took money. Men who wanted to buy gave money.

Add up the pounds, kronen, and lire into hundreds, thousands, and millions. Put these into a strong box or a bank. Loan them out or invest them. Then there is a fund, a representation of values of goods. The funds can flow as such, be broken up, buy goods, or hire men. All this reached a high stage of development under the mercantile capitalism of the period 1300–1800 and advanced during the period of industrial capitalism, 1800–1890. During the later period the particular addition of great importance was the spread (not the rise) of joint-stock companies, incorporated, shares in which could be purchased by many persons with savings. The share was worth perhaps $1,000,

$500, $400, or $100. Here was a fund of venture capital that helped to make the material world over into something very different.

The industrial capitalist secured the capital necessary for his fixed capital outlay from his own savings and from the sale of shares in a partnership or, increasingly, shares in a corporation. Preoccupied with the need for machinery and a building in which to house the machinery, the early industrial capitalists found themselves short of working capital when they came to purchase raw materials, meet their payrolls, and maintain an inventory of goods for sale. Their need for working capital they met out of loans from individuals (investing capitalists, occasionally their own workmen) and, more and more, from commercial banks. Indeed, the chief function of commercial banks was to provide working capital. After the banks had loaned their capital or a certain part of it, however, they had to loan their depositors' funds. When times got bad, the depositors needed their deposits or feared they might be lost; accordingly, they ran to withdraw their precious savings. The banks thereupon called their loans, and the whole condition of stringency became much worse.

The phenomenon of the business cycle was born in the period of mercantile capitalism, but it was greatly accentuated under industrial capitalism and seems to have taken on a more rhythmic character. Within a decade a financial crisis would arise — the pipe lines would have failed to flow normally.

Part of the distress of the financial crisis was the loss of employment as a factory or mine closed down. Cries arose that capitalism — industrial capitalism — was causing human distress. This allegedly new depression was regarded as a monstrous thing, which should be abolished or at least ingloriously controlled. Socialism, coöperation, and idealistic communities came into being to remedy the excesses.

No one seemed to remember, or indeed to have noticed, that industrial capitalism had given employment to men, women, and children, individually or in family groups, who had hitherto had no dependable source of livelihood. They came from pocket farms or squatters' holdings here and there to change their precarious subsistence living into something better. The new order was good enough until the depression came upon the scene. The outcry and the reaction were justified, but the intellectual re-

percussion was emotional and irrational. Indeed, what so often masquerades as intellectual is at base commonly irrational. At any rate, it was out of this reaction of society to industrial capitalism that socialism was born, including the scientific socialism of Marx.

The brief period 1780–1830 saw two big revolutionary movements in Europe — the French Revolution and the Industrial Revolution. Both were movements that pried loose latent energies. The first called forth the political activities of men — to form constitutions, pass laws, and establish parliamentary governments. The second gave unprecedented income — *money* income — to families that had lived off their garden, cow, and chickens. The first gave freedom to men in a society of balanced forces. The second gave freedom to men to be exploited or to exploit others, to lose or win. Men were on trial. Were they in fact worthy of freedom? Were they all born equal — equally able to manage themselves in a free competitive system? It was because the answer was in the negative that social reconstruction movements arose and social theories were formulated — to take care of the unfit. The test was of all-round fitness, not just ability to blow a mouth-organ, deliver a fiery address, or father a brood of brats. The test was ability to take training so as to have services to sell to society, services which society wanted and would pay for. This test was too hard for the great majority, harder for some racial or national groups than for others.

Every form of capitalism has had its opportunities for advance and success, and every form has had its chances for failures. The failures have been no less *conspicuous* than the successes. The failures have been proclaimed by Church, social economists, socialists, radicals, liberals, and others. The test of competition under an increasingly rational system cannot be met and passed by the rank and file. This fact becomes a source of weakness for the existing form of capitalism. Selfish men, soft-hearted men, emotional men rush in to redress the balance or introduce a new system. One type of man will always prefer a change, a reform, or a revolution, while another will prefer to work hard to make the existing system function. In general, the first class is made up of the brilliant intellectuals, the emotionally unstable persons, and the misfits, while the second class consists of the

judicial and rational, the well-balanced persons, and those who have adjusted themselves to their suroundings. Thus, in large part, the struggle is psychological and not to be eliminated. It has become one-sided from the fact that neither business man nor intellectual has seen fit to help society to achieve a balance in judging business.

Because of depressions and resulting unemployment and because of low wages and hard conditions of work, there arose movements of protest against the whole business system. Such protests had been sporadic from the thirteenth century onward. But now, in the nineteenth century, there arose ideas of reform not connected with cloudy religious concepts but bent upon redress. We may sum up the most extreme part of the movement as socialism. In the midst of public distress first emotion, then conscience, and finally intellect arose to new and unaccustomed heights. The upshot was a recognition of capitalism as a system, which men had dimly felt, without being conscious of it. I may repeat what I find no reason to tire of saying that healthy, normal man was born to breed and not to think. Intellectual effort is alien to his being and exhaustive of his nervous energy.

Classical economists, from the time of Adam Smith onward, had recognized capital as a factor in production. But this factor was not so important to them as land and labor. Business or enterprise was even more insignificant. In 1867 Karl Marx finished the first volume of his great work called *Capital*. Marx analyzed the capital system as it had never been examined before, but his object was to destroy rather than to understand. It remained for Werner Sombart to write several books during the period 1902–13, that made use of the term "capitalism" and gave to it a respectable position in the field of the social sciences. A whole literature of criticism and abuse arose in Germany, but everywhere *social* economists and *social* historians followed Sombart's ideas and half-baked generalizations more or less uncritically. Perhaps there are three normal stages in the development of our social ideas and social philosophy. First, we develop a system, such as capitalism and business. Second, somebody dislikes the system, and revolts. Third, people begin to think about the matter and bring it into the orbit of intellectual effort. Theories arise. At last we have a conscious comprehension of the whole matter.

As we look closely at what was happening to business itself at the close of the Victorian period we discern three general developments that are pertinent to the present interest. First, there were industrial capitalists who were producing new goods of high value at ever decreasing costs. Along with this combination went low money wages, though there were advantages in the decreasing price of goods purchased. In the throes of severe competition the industrial capitalists struggled to hold their own. They competed on a price basis, which meant complete ruination to many petty capitalists and often privation to their wage earners. Second, in little oases of effort there were industrial capitalists who were succeeding and who succeeded not through oppression of workers but because of their own efficiency or because of the nature of their industry. John D. Rockefeller, Philip D. Armour, and Henry Ford are examples of industrial capitalists who were not destroyed by overcompetition but who throve upon superior methods. These men multiplied their functions, integrated them carefully, diversified their products, massed an adequate working capital and a surplus to see them through a crisis or even to enable them to take advantage of bargains that arise in a crisis. Such industrial capitalists may be called financial industrialists. They are the finest or most acceptable specimens that the system of industrial capitalism had to offer. The criticisms made of such leaders are sometimes genuine but usually specious. There is no opportunity here to dwell upon the subject. Third, there was a group of persons, like the workers, who suffered grievously, though generally in silence. These were the stockholders both large and small, and increasingly women, orphans, and institutions, who saw dividends melt away. Someone had saved for his old age or for the benefit of others, and these savings were not bringing in returns. These investing capitalists were scattered, unorganized, and resentful. While the workers were championed by preachers, socialists, and the like, the investing capitalists were finally championed by investment bankers, as we shall see in the next section.

Financial Capitalists Rely upon Policy-Formulation and Over-all Control

By the last decade of the nineteenth century not all was well with industrial capitalism. The third group, the stockholders,

was too small in number and too impotent in the general situation. The typical situation was the first, overcompetition, in which all groups were ultimately bound to suffer. The one group that came to receive efficient, though not planned, attention was the investing capitalists. They were to receive delayed social justice. At last something was being done about the lack of return on capital invested. In fact, something had to be done to help them or industrial capitalism would wither and factories and railroads disappear.

The aid that came to the investing capitalists was brought by the investment bankers. But the aid really led to the establishment of a new type of capitalism, which had a brief but meteoric career. This was financial capitalism.

Financial capitalism is a system in which the control of business is lodged in those who represent the owners of capital. The essential of *all capital systems* is the setting aside of what is available at the moment for use at some future time. Men had saved and, as investing capitalists, loaned money by buying bonds or invested money in corporations by buying stock. The borrowers of the money, particularly the administrators of the corporations, were becoming increasingly unable to pay interest and dividends. If this had continued, saving would have ceased and investment become impossible. To stop this dangerous development the investment bankers took action, halting and tentative at first, sharp, decisive, and remedial later.

For our purpose it is enough to note that in America it was J. P. Morgan & Co., Kuhn Loeb & Co., J. & W. Seligman & Co., and others who led in the new development. It was the glory of the elder J. P. Morgan that he became the first clear-cut and efficient exponent of the new system in America, though he was quite unconscious of any new régime. Such private bankers had participated in the issuing of bonds and stocks and now saw their business threatened with extinction. They stepped in to prevent the continuance of the bad business methods, including destructive competition, of the industrial capitalists. Of course, they were not interested in the welfare of the workers, and that omission was their chief weakness. But they did intend to influence business to the extent of playing fair with bondholders and stockholders.

Now, I have said that the investment bankers were not in-

terested in the workers, nor in the public as such, for that matter; but there is a sense in which that statement is inadequate. In truth, nothing could be more vital to the wage earners than the saving and investment of capital, because it was this capital that made employment possible. The workers, however, assumed employment and went beyond in their thinking to a larger share of the income. This larger share was no part of the plan of the investment bankers, who in this as in so many respects followed the thinking of industrial capitalists; indeed, the whole emphasis of the investment bankers was to siphon off a larger share of increased earnings into the pockets of investing capitalists.

Many journalists could not help noting that it was to the largest and most strategically located companies that the investment bankers directed their attention. These companies included public utilities, communication concerns, railroads, steamship lines, and manufacturing companies. Almost all of these needed reorganization and many needed more funds.

The investment bankers expected to pour into the concerns needing assistance vast quantities of securities which they would issue and sell to the owners and possessors of capital. The bankers formed groups of bankers for effective handling of large issues. They looked to the support of a vast clientele of investors and they turned to commercial banks and insurance companies for assistance in selling stocks and bonds.

Although the efforts of the early 1890's were directed merely at the solution of individual problems of threatened bankruptcy, reorganization, and rehabilitation, it seemed, as time went on, that there was at least a half-conscious organization in the process of formation. This was dubbed the "Money Power" and the "Money Trust." In essence, the investment bankers were trying to do five things: (1) to help producing units into a position of greater prosperity; (2) to *influence* these units or perhaps even *control* them for a time, when necessary, so as to insure recovery of earning power; (3) to get into the position of being able to sell the new securities to insurance companies to the profit of all concerned; (4) to strengthen their own business of issuing and selling securities to the investing public; and (5) to earn a profit for themselves in these combined efforts. It was to be expected that the earnings of the ablest and most strategi-

cally located bankers would be high, but there is no evidence that on the average through the years bankers' profits were abnormal for the rank and file.

As the investment bankers proceeded with their individual reorganizations—railroads, manufacturers, public utilities—they tended to rely more and more upon certain devices. These included banker directors, non-voting stock, voting trusts, and holding companies. Objections to these arose from many quarters and the objections were often justified.

The business policies which the investment bankers sought to force upon the weak firms that needed reorganization or consolidation with other firms were taken from the financial industrial capitalists. What these were we have already seen. The objection of many persons to these policies was the same as before. The grand summary objection was that monopolies were created and prices raised. No doubt this was in part true, but higher prices were often justified and necessary for all concerned.

We have seen something of the organization of the financial capitalists, or investment bankers; we have also noted their chief devices and policies. We need to see how financial capitalists implemented their control or influence. The method was chiefly to secure the appointment of an executive, in whom they had confidence, to drive through to the desired results. There came to be a large group of these Wall Street lieutenants who assumed leadership in business administration for better or for worse. Three of Morgan's lieutenants were E. H. Gary, Howard Elliott, and C. S. Mellon, to say nothing of his able partners such as Charles Steele and George W. Perkins.

One of the most controversial aspects of this whole system of financial capitalism lies in the interpretation of control. The investment banker's interpretation has been that there was no control, only influence, and that this influence was not imposed but was sought by the concerns in question. It is urged that one director on a board of ten could have no control and one trustee in a voting trust of three could not dominate. The opposite point of view is that it never was a question of numbers but of financial connection. When a concern is financially weak, the director or trustee who represents the source of financial aid is in fact all-powerful. I have seen enough of this in business and in institutional activity to know that such is the case.

I accept the view that there was banker control, but I believe that it was often sought after and was not always imposed and that it was commonly beneficial to the company controlled and, in general, socially desirable. There is no opportunity here to argue these points. Indeed, instead of attack and defense we need more facts and study. Unfortunately for themselves and for us, investment bankers do not disclose the facts of their history and are not proud of their past, though they know they have been maligned and misunderstood. Few periods of our business history are more deserving of study than 1890–1930.

It is an interesting reflection that financial capitalism prepared for its own destruction. On the one hand, as the investment bankers succeeded in putting the various business units onto their feet, their usefulness became unnecessary and their influence beyond the five or ten years of a voting trust unenforceable. On the other hand, their temporary success (1893–1929) aroused many enemies who, when united, became politically strong. The arguments these implanted in the public mind were largely false, but there was one over-all feeling that stuck: the Money Power, Wall Street, was too powerful for the public good. It was an *imperium in imperio* and not to be tolerated.

The investment bankers had pointed the way to *control from the outside.* This had gone counter to the laissez-faire, or economic liberalism, of the nineteenth century. Thus they, in fact, prepared the way for later political interference. If bankers could control business on behalf of the investing capitalists, politicians could also control it and on behalf of all the groups that make up the public, including labor, farmers, and petty capitalists generally.

And so we see here what we have observed before, namely, that each type of capitalism prepares the way for another to come. Some features are found to be objectionable and need to be eliminated. Fresh methods are open for use and need to be tried. Always the idea is that a larger number should participate in the benefits of the system of private business capitalism.

National Capitalists: Top Control Is Completely Divorced from Business

In the study of private business capitalism we should not make too much of capital and too little of business. This is an easy

error, and it runs all through the thinking of scholars and the writing of commentators. In the new stage, which we are about to deal with, the important group does not own the capital and does not even administer business. The national politicians and national bureaucrats regulate, influence, and *control* business just as the top executives themselves had freely done in nineteenth-century laissez-faire. They determine conditions of competition and fix maximum rates to be charged by railroads. They determine the minimum prices of grain and other agricultural commodities by means of subsidies. In time of warfare, and we must increasingly accept warfare as a normal though dreadful part of life, they control wages and prices. At all times, of course, they control taxes. There is nothing new in form about this but much in essence, for taxes now are high and on the border of confiscation. The present stage of private business capitalism, called national capitalism, has gone so far that top executives have to employ specialists to inform them about government action in the matter of taxation and other controlling measures. Only after Washington has decided can New York determine its policy.

This increase in the separation of the ownership of capital from its control has long been under way. To fail to appreciate this is fatal to an understanding of where we are today. The petty capitalist owned capital, determined policy, exercised control, managed operations, and did part of the work with his own hands. All later developments involved the unscrambling of these functions. The sedentary merchant or mercantile capitalist used the capital of outsiders, including partners (one-venture partners and terminal partners) and depositors. The industrial capitalists developed the corporation to such an extent that finally the officials who administered the corporations were increasingly divorced from ownership. And, indeed, in the American Telephone and Telegraph Company, the United States Steel Corporation, and the Standard Oil Company (N.J.) the top officials own a small fraction of one per cent of the stock and typically reëlect themselves, a procedure that reinforces the trustee position which they occupy. Then, in financial capitalism, the control is separated from the owners (investing capitalists) on whose behalf the investment bankers control business. And, finally, this control passes from bankers to politicians and bureau-

crats or indirectly to the dominant political party. Starting as a thing apart from the rank and file of men, hesitatingly growing up in towns here and there, vastly maturing in metropolitan centers, business has engulfed the population, which is almost completely dependent upon it and which now indirectly controls it. (It would pay the reader if he went over this last sentence once again.)

How does the dominant political party deal with the private business capitalism which it controls? How did it come to exercise the control? How far is this control going? What of the future?

When a dominant political party assumes control of private business capitalism, it may either change to *public* business capitalism, as in Russia, or it may maintain a modified *private* business capitalism, as in prewar Italy, Germany, and the United States.

In America, under the New Deal, the new system of private business capitalism was introduced the same month (March, 1933) as in Germany. Coming to the rescue of the people in a depression, it was for the moment acceptable. It did not nationalize industries, but it regulated and controlled them on behalf of the workers and the petty capitalists (including the farmers). The New Dealers offered the recovery philosophy of "raise wages and prices" and then, without reducing wages, lower prices when inflation is threatened. Above all, in the future, a business boom must be prevented, they seem to believe, if we are to avoid a disastrous depression, such as that of 1929–33. All this lies within the realm of *private* business capitalism.

Of course, it is to Italy and Germany that we must go for a mature picture of the new system of national capitalism. In that picture of fascism and naziism we see the rise of a new class of people controlling business, largely from the struggling petty capitalist class with a sprinkling of industrial capitalists. We see also a certain measure of socialization of business (public business capitalism). We see also the rise of dictatorship and the preparation for war. These last two developments have been only adumbrated in America.

The core of the new system is leaving the framework of private business capitalism unimpaired, except for a minimum of socialization, and encouraging those leaders in positions of political

and business importance who support the new régime. With this new class of business administrators the national capitalists will coöperate fully but always with the control in their own hands. While the New Deal in America was managed for the workers, farmers, and small business men, in Italy and Germany the new régime considered the workers only apart from their old-time trade and labor unions.

Public Business Capitalists: the Socialist Leaders of Soviet Russia

In Russia a handful of communists overthrew in 1917 the liberal régime of an upstart government. A quick overturn of private business capitalism then occurred in the matter of large estates, large manufacturing industries, mines, and the like. (No big business was left outside the ownership, administration, control, and operation of the national state.) At first the plan was to divide the products of this system among men according to their needs, a family of a dozen receiving twice as much as a family of six. When this was seen to be impractical, because men would not exert themselves, the system of communism was changed to socialism, though in both cases there was no government of the people as such. It is the dominant party that counts, a party controlled by a small group of men who reach out and dominate all parts of the nation and even send out slender tentacles to influence affairs in foreign lands.

It cannot be too strongly emphasized that part of the change has involved a new group of executives in Russia, in both the political and the business fields. There was much in the old régime of the Czars to indicate that the old-time political bureaucrats and business men were unworthy of their jobs and that the future of Russia was not safe in their hands. A new class of managerial superman is being born in Russia. These men have proved themselves to be tireless, partisan, ruthless, and proletarian. They are sowing the seeds of their own destruction by their narrowness and their determination to hold the power they have assumed. They thrive on distress and batten on promises of things to come. They have started a quickening of life in Russia all right, but that quickening is not based on information, honesty, and fairness.

It would be unfair to the Soviet experiment to omit the

elements of *private* business capitalism. There has long been a black market in Russia which has received official sanction, the profits from which are regularly taxed. This is a nice piece of Russian realism that shines out as a bright promise of a freer day ahead. Small business enterprises in town and country are also permitted. Salaries are differentiated and piecework has been introduced. That men are born unequal in capacity, is coming to be realized by the bureaucrats who have to administer the egalitarian theories of a generation ago. Citizens are encouraged to save part of their income, particularly to invest in government bonds.

I suppose Karl Marx is watching Russian shifts in administration from his inconspicuous grave, north of London. If so, he must wonder how the changes fit in with his three stages of social development:

Feudalism
Capitalism
Socialism

Now, these three stages have a crude validity in actual evolution. I believe we should, however, make a partial substitution as follows:

Pre-business capitalism (feudalism)
Private business capitalism (capitalism)
Public business capitalism (socialism)

I doubt whether Marx would quarrel very much with this substitution. What he would not like is the implication of a current tendency to compromise. There is not a little that indicates that the last stage of private business capitalism (national capitalism) will become more socialistic and the present stage of socialism will become more "capitalistic." Indeed, these processes are under way.

The threatened war between Russia and America may have to occur before we can see that the two extremes are growing together. Russia is becoming American and America is becoming Russian. It took a hundred years of warfare for Protestants and Catholics to learn that fundamentally this earth was for both only a preparation for heaven and that neither party could destroy the other. Out of this impasse was born the beautiful idea that we should tolerate the religious dogma of the other fellow. It is not only the cynical realist that draws this

dour conclusion that all these years we have been liberal out of necessity, not out of choice. The corollary is, of course, that, if and when the religio-social war breaks out between the so-called communist and capitalist countries, there will be a dormant intolerance ready to function again as in the days of the wars of Protestants against Catholics.

The Seven Births of "Capitalism"

Many lands claimed to be the birthplace of the epic poet Homer. Different persons have found that "capitalism" was born at different times.

It has been said (1) that capitalism was born in the heart of man. After enunciating this view, Brentano, the liberal economist of Germany, illustrated abundantly his theme that man has always been selfish and individualistic. Much of his evidence came from the Bible.

It has been the purpose of this paper to set forth the claim (2) that the capital system began in the transition from collectional to nomadic economy and was well entrenched in the nomadic economy. In addition, it has been urged that we must allow for constant change in the past and, regretfully, in the present also.

The slave plantations of antiquity (3) have been held by some to be capitalistic. Large sums of money were invested in these plantations, both in land and equipment. Part of the equipment was made up of slaves, who were very expensive. Because of these heavy investments and rich plums of conquest, there had to be military protection and, of course, there was warfare. In addition, there were slave uprisings. Even slaves will at times assert their manhood.

It was a neat and dramatic theory (4) that Sombart put forth in 1902, namely, that capitalism was born in the transfer of unearned urban rents into foreign trade. The lords of the manors on which the commercial towns of the Middle Ages were being built had fat and increasing rent rolls and this unearned increment of income was invested in distant trade, for instance, between the eastern and western Mediterranean countries. Various students, including Strieder and Heynen, have shown that this was not true, the former in Augsburg and the latter in Venice.

In pondering the psychological side of business, that is, the spirit of enterprise, Sombart set forth a new birth (5), namely,

the Italian Renaissance and the Reformation. To be sure, the Renaissance accentuated in art and letters what business men had already begun. And the Reformation split the Church open so that the existing practices of taking usury and charging a market price would not be under the ban of ecclesiastical authority.

As we have seen, the great investment of capital in machinery and other equipment as well as in buildings and power plants which was part of the Industrial Revolution (6) justifies our emphasizing capitalism on the side of huge accumulations. Indeed, this points to one aspect of capitalism that has impressed many thinkers — the inequality of distribution.

When financial capitalism was born, politicians and lawyers reckoned the billions of capital funds that were controlled by investment bankers and observed how, dividing into rival camps, these bankers fought for position and power after the manner of feudal barons. To many this has been (7) the beginning of capitalism, a system of money power, that threatens the rest of the world.

Some Further Conclusions

When Sombart began his pioneer studies in the history of capitalism, he was in fact starting a movement which, instead of corroborating the views of Marx, would finally correct them. His work has led to a calmer historical analysis of the growth of the system of capital use and accumulation. When Sombart threw his bombshell into the world of scholars in 1902, the economists were chagrined. Here was a whole body of historical phenomena relative to an economic topic which they had overlooked. They were chagrined to be reminded that they had long insisted on neglecting enterprise and administration. In fact, these two must be carefully woven together, if we are to understand the past and present. Two systems have grown up — capitalism first and then the business man's use of it — capitalism and business. This is the pattern.

What the historical economists of the Roscher and Schmoller schools should have perceived and developed is being left to business historians. Unfortunately, so many new concepts and so many new categories flood the mind at one sitting that only the younger students of business are likely to make progress.

Older business men will pass the effort by, because they do not like new distinctions: they think they know business but this is true only of its practical aspects. Older economists are likely to stick to old grooves. Economic historians, led by classical economists, will play with the concept of entrepreneur, which largely is a figment of the imagination. For many years English and, especially, American historians have used the word "middleman" as meaning something both general and specific. In a general way, middlemen are business men who take profits and stand in between the virtuous producer and the virtuous consumer. They are the business men who are supposed to play one group against the other to their own advantage. More definitely, middlemen are traders, notably wholesalers, importers, and retailers of various types, who, from at least the sixteenth century onward have conspired to raise prices.

In England and on the Continent of Europe there is a curious lag in terminology. In England the word "business" and the phrase "business man" are seldom used in the American sense. In England there are successful schools of commerce and of economics but no school of business. In France you can use the term "entrepreneur" but it is not commonly applied to a business man. In France, as in England, "commerce" is the nearest term to business in common use. These two great peoples show in their terminology but little preoccupation with business history when they continue to apply the term "commerce" to business, a term that would have been reasonably satisfactory in the period 1300-1800, when mercantile capitalism was dominant.

"Entrepreneur" suggests risk-taking. Many business men today, notably executives, are in no special sense risk-takers. The old sixteenth- and seventeenth-century term "adventurer" has now been given a special and different meaning. The word "capitalist" is too broad to be used without a qualifying adjective. This leaves us with the ineuphonious term "business man" as the most general and useful for historical and current purposes. This term embraces risk-taking, policy-formulation, management, and control.

At this point we may present an analogy. There was a time when even scholars used the term "civilization" to apply exclusively to that high form, particularly urban and Christian, which they themselves admired. Now, however, under the guidance of

anthropologists, we have come to think of civilization as a means of getting the most out of our environment in a systematic way, regardless of the particular variety or locality. We speak of the civilization of the Hottentot and the Esquimau, of Charlemagne and of Louis XIV. True, we hesitate to apply the term civilization to that vague period of human existence when *pithecanthropus erectus* was struggling to his feet and trying to maintain his balance.

And so with capitalism. It has had its dim beginnings and its many twists and turns. It has grown up with the social being that is man. It has constituted the material basis of civilization. Man and capitalism have risen together, though not always in the same degree, and both could sustain a setback. Propaganda involved in the use of the term "civilization" has gradually been softened. Propaganda might well be drawn out of capitalism, if we use a qualifying adjective, such as petty capitalism, industrial capitalism, and national capitalism, when discussing the régime of any particular time or place.

Of course this study of the capital system is not projected as having eliminated the social or class conflict that is being waged for the control of business and the enjoyment of the income therefrom. It does show, however, that the struggle is not between capitalism and non-capitalism but between different forms of capitalism. In any period the prevailing form of private business capitalism has always been on trial. The prevailing form has always been in its gradual process of giving way to another form. In the occidental part of the world only mercantile capitalism lasted very long—from about 1300 to about 1800. Since that time the tendency has been for capitalistic systems to have a shorter span of life.

There is not a little evidence for the view (1) that the whole struggle which has been waged for the control of business will be seen to be less significant than has been thought and (2) that the business struggle is shifting to a political contest. The meaning of the first point is that national capitalism (fascism or naziism) will emphasize private business capitalism with some socialization, while the opposite system of autocratic socialism (or communism) will emphasize socialization with some measure of private business capitalism. The difference in the last analysis might not be very great, just a matter of degree. However,

whether the victory lies in national capitalism (fascism or nazi-ism) with its logical tendency to autocracy, or whether it lies in autocratic socialism with its necessity for centralized control and domination over individuals, at any rate human liberty and freedom, built up slowly in England and by blatant revolution in France, will be seriously modified. This change, though lamentable, would fit in with a developing over-population, the diminution of natural resources, and the human failure that men are showing in the competitive system. This change might be expected to occur on the old continents long before it takes hold of the new.

There is one thing that we mortals cannot do: we cannot get away from ourselves. The historian has the historian's weakness, or is it strength? He struggles against emotional thinking, whether it springs from desire or from fear. He struggles also to attain a long-time point of view, with a fervent urge to transcend the ephemeral. That the historian can succeed in these efforts, it is the privilege of all to deny. At any rate, the historian comes to the conclusion that few views widely held in any particular day or generation have any long-time validity. If the commonly accepted views concerning "capitalism" should prove to be unsound in the light of history, then there should be no surprise.

If I have made any contributions to the subject of "What Is Capitalism?" perhaps they are chiefly as follows: I have defined capitalism in its simplest and most logical form. I have placed the origin of capitalism back in nomadic economy. I have given business a place in the development of capitalism. I have established an historical evolution of both capitalism and business and willed them a position in economics which classical economists failed to give them. I have indicated that perhaps the present social cleavage might end in a merger and coalescence if extremists would permit this to happen, leaving the real struggle to the realm of politics. I have made a plea for a more careful examination of our terminology: loose thinking may be more dangerous than loose living. I leave the subject not unwilling that others should carry it on.